



Commissioners

KEVIN D. GUNN
Chairman

TERRY M. JARRETT

ROBERT S. KENNEY

STEPHEN M. STOLL

WILLIAM P. KENNEY

Missouri Public Service Commission

POST OFFICE BOX 360
JEFFERSON CITY MISSOURI 65102
573-751-3234
573-751-1847 (Fax Number)
<http://www.psc.mo.gov>

WESS A. HENDERSON
Director of Administration
and Regulatory Policy

SHELLEY BRUEGEMANN
Acting Secretary/General Counsel

CHERLYN D. VOSS
Director of Regulatory Review

February 25, 2013

The Honorable Mike Kehoe
Missouri Senate
State Capitol, Room 220
Jefferson City, MO 65101

Dear Senator Kehoe:

Attached you will find the Missouri Public Service Commission Staff's analysis of the likely annual rate impact of that portion of SCS SB 207 that allows for periodic ISRS rate adjustments for Missouri electric utilities. The Commission Staff used the SCS SB 207 as the applicable language governing operation of an electric ISRS in this state. In developing these estimates, to the extent possible the Commission Staff worked with the electric utilities to ensure that the calculations were based upon reasonable assumptions. Separate rate impact analyses have been prepared for Ameren Missouri (Ameren), The Empire District Electric Company (Empire), Kansas City Power & Light Company (KCPL), KCPL – Greater Missouri Operations/MPS District (GMO – MPS), and KCPL – Greater Missouri Operations/SJLP District (GMO – SJLP). The latter three entities are all affiliates of Great Plains Energy (GPE) offering electric service to Missouri customers using different approved rate schedules.

In your letter of February 19th, you asked the Missouri Commission to analyze the annual impact of implementing ISRS rate increases for each electric utility based upon an assumption that each utility will place in service \$700 million of ISRS eligible infrastructure investments annually. While Ameren has verified that this amount is a reasonable assumption for its annual ISRS eligible plant additions, GPE and Empire believe that the figure of \$700 million overstates to a significant degree the amount of annual ISRS additions that they would be expected to be placed in service in the future. Accordingly, these companies provided what they believe to be reasonable estimates of their approximate expected annual ISRS plant additions, and the Commission Staff utilized them for purposes of the attached calculations (\$215 million in annual ISRS plant additions for KCPL, \$ 122.5 million for GMO – MPS, \$40 million for GMO – SJLP,

Senator Kehoe

Page 2

\$85 million for Empire). We would be happy to provide you these same rate impact analyses using different assumptions as to the volume of annual ISRS plant additions if you desire.

The calculations attached to this letter indicate that the estimated amount of annual ISRS revenue requirement for Ameren is approximately \$40 million, for Empire approximately \$5 million, for KCPL approximately \$12.5, for GMO – MPS approximately \$7.5, and for GMO – SJLP approximately \$2.5. These amounts are estimates only, and do not constitute any sort of prediction of what the ISRS rate impact will be in any given year, or in the first year of an ISRS. Because the amount of annual ISRS investments by utility will be affected by many variables over time, in any given year it can be expected that the actual amount of ISRS eligible plant rate increases may be significantly greater or less than the amount of the estimated annual rate increase calculated for by the Commission Staff for each electric utility.

We have attached a sheet to this letter that provides a more detailed explanation of how the ISRS revenue requirement amounts were derived for each Missouri electric utility.

This analysis only considered the rate impact of the sections of SCS SB 207 pertaining to ISRS increase applications. We have not attempted to examine here the potential customer rate impact of other sections of the legislation in general rate proceedings, primarily 393.1215.

Please do not hesitate to contact me if you have questions or concerns on the attached calculations, or if you need additional analysis of this subject matter performed.

Sincerely,



Kevin D. Gunn

Chairman

SCS SB 207 ISRS Rate Analysis Explanation

Per the terms of Senate Bill 207, Senate Committee Substitute, the costs an electric utility would be allowed to recover through ISRS rate filings would be a return on net ISRS “rate base,” factored up for income taxes, as well as depreciation expense calculated on net ISRS plant additions.

Each Missouri electric utility provided the Commission Staff a net ISRS rate base amount for purposes of this analysis. ISRS rate base is the amount of annual average plant in service additions projected by each utility eligible for ISRS rate recovery (i.e., excluding generating plant additions, “new business,” etc.), less the projected annual growth in a utility’s accumulated depreciation reserve and accumulated deferred income tax reserve. The utility’s projected ADIT amounts assume that “bonus depreciation” tax benefits now available to electric utilities will not be available to them on an ongoing basis in the future.

Then, the next step in the ISRS rate calculation is application of a “rate of return” to the net ISRS rate base amount. For Ameren Missouri and the GPE utilities, the Commission Staff used the current rate of return values ordered for these entities by the Commission in their recent rate increase applications. For Empire District Electric, because its current rate proceeding has been resolved through a stipulation and agreement entered into by the parties to that proceeding, it is not expected that the Commission will authorize a specific rate of return for Empire. Therefore, consistent with the terms of SB 207, the Commission Staff has relied upon a rate of return value calculated as an average of the rate of return recommendations from those parties that actively participated in the rate of return issue in Empire’s current rate case.

The required rate of return on net ISRS rate base is then adjusted for income tax impacts in the following manner. First, the equity portion of a utility’s return on ISRS net plant investment “factored up” for income taxes in that the equity return amount is not generally deductible for federal and state income tax purposes. Second, the ISRS revenue requirement is reduced by an interest expense tax deduction calculation that recognizes that any interest expense associated with debt investment made to finance ISRS plant additions would be currently deductible for income tax purposes.

The other component of the ISRS revenue requirement, ISRS depreciation expense, is calculated by applying a depreciation rate to the estimated amount of net annual ISRS plant investment, that is, gross ISRS plant additions less estimated annual plant retirements. For purposes of this calculation, the Commission Staff applied each utility’s overall composite depreciation rate authorized by the Commission in its most recent rate application.

The analysis outlines two rate design scenarios for each investor owned electric utility. The two scenarios are:

1. Weighted Customer Charge Allocation Method – ISRS charge based on weighted customer charge per class.
2. Revenue Allocation Method – ISRS charge based on annual revenue per class.

Kansas City Power & Light Company
Annual SCS SB 207 ISRS Revenue Requirement

Line	\$	
1 Total ISRS Rate Base	\$ 57,780,000	(1)
2 Current Rate of Return	0.081240	(2)
3 Pre-Tax Required ISRS Return (Line 1 X Line 2)	\$ 4,694,047	
4 Income Tax Conversion Factor		1.6231 (2)
5 Revenue Req. Before Interest Deduction (Line 3 X Line 4)	\$ 7,618,908	
6 Total ISRS Rate Base	\$ 57,780,000	
7 Current Weighted Cost of Debt		0.03029 (2)
8 ISRS Interest Deduction (Line 6 X Line 7)	\$ 1,750,156	
9 Effective Income Tax Rate		0.3839 (2)
10 Income Tax Deduction Due to Interest (Line 8 X Line 9)	\$ 671,885	
11 Income Tax Conversion Factor		1.6231 (2)
12 Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	\$ 1,090,536	
13 Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	\$ 6,528,372	
14 Annual ISRS Depreciation Net of Retirements	\$ 5,940,000	(4)
15 Annual Property Taxes		- (3)
16 SB207 ISRS REVENUE REQUIREMENT (Line 13 + Line 14)	\$ 12,468,372	

- (1) Amount Provided by Utility
- (2) From Order in Case No. ER-2012-0174
- (3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
- (4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0174

KCPL Greater Missouri Operations - SJLP Division
Annual SCS SB 207 ISRS Revenue Requirement

Line	\$	
1 Total ISRS Rate Base	\$	8,820,000 (1)
2 Current Rate of Return		0.081240 (2)
3 Pre-Tax Required ISRS Return (Line 1 X Line 2)	\$	716,537
4 Income Tax Conversion Factor		1.6231 (2)
5 Revenue Req. Before Interest Deduction (Line 3 X Line 4)	\$	1,163,011
6 Total ISRS Rate Base	\$	8,820,000
7 Current Weighted Cost of Debt		0.03029 (2)
8 ISRS Interest Deduction (Line 6 X Line 7)	\$	267,158
9 Effective Income Tax Rate		0.3839 (2)
10 Income Tax Deduction Due to Interest (Line 8 X Line 9)	\$	102,562
11 Income Tax Conversion Factor		1.6231 (2)
12 Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	\$	166,468
13 Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	\$	996,543
14 Annual ISRS Depreciation Net of Retirements	\$	1,470,000 (4)
15 Annual Property Taxes		- (3)
16 SB207 ISRS REVENUE REQUIREMENT (Line 13 + Line 14)	\$	2,466,543

- (1) Amount Provided by Utility
- (2) From Order in Case No. ER-2012-0175
- (3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
- (4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0175

KCPL Greater Missouri Operations - MPS Division
Annual SCS SB 207 ISRS Revenue Requirement

Line	\$	
1 Total ISRS Rate Base	\$ 26,460,000	(1)
2 Current Rate of Return	0.081240	(2)
3 Pre-Tax Required ISRS Return (Line 1 X Line 2)	\$ 2,149,610	
4 Income Tax Conversion Factor		1.6231 (2)
5 Revenue Req. Before Interest Deduction (Line 3 X Line 4)	\$ 3,489,033	
6 Total ISRS Rate Base	\$ 26,460,000	
7 Current Weighted Cost of Debt		0.03029 (2)
8 ISRS Interest Deduction (Line 6 X Line 7)	\$ 801,473	
9 Effective Income Tax Rate		0.3839 (2)
10 Income Tax Deduction Due to Interest (Line 8 X Line 9)	\$ 307,686	
11 Income Tax Conversion Factor		1.6231 (2)
12 Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	\$ 499,405	
13 Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	\$ 2,989,628	
14 Annual ISRS Depreciation Net of Retirements	\$ 4,410,000	(4)
15 Annual Property Taxes		- (3)
16 SB207 ISRS REVENUE REQUIREMENT (Line 13 + Line 14)	\$ 7,399,628	

- (1) Amount Provided by Utility
- (2) From Order in Case No. ER-2012-0175
- (3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
- (4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0175

The Empire District Electric Company
Annual SCS SB 207 ISRS Revenue Requirement

Line			
1	Total ISRS Rate Base	\$	23,900,000 (1)
2	Current Rate of Return		<u>7.912% (2)</u>
3	Pre-Tax Required ISRS Return (Line 1 X Line 2)	\$	1,890,968
4	Income Tax Conversion Factor		<u>1.623076249 (2)</u>
5	Revenue Req. Before Interest Deduction (Line 3 X Line 4)	\$	3,069,185
6	Total ISRS Rate Base	\$	23,900,000
7	Current Weighted Cost of Debt		<u>2.9480% (2)</u>
8	ISRS Interest Deduction (Line 6 X Line 7)	\$	704,572
9	Effective Income Tax Rate		<u>38.3886% (2)</u>
10	Income Tax Deduction Due to Interest (Line 8 X Line 9)	\$	270,475
11	Income Tax Conversion Factor		<u>1.623076249 (2)</u>
12	Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	\$	439,002
13	Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	\$	2,630,183
14	Annual ISRS Depreciation Net of Retirements	\$	2,472,000 (4)
15	Annual Property Taxes		<u>- (3)</u>
16	SB207 ISRS REVENUE REQUIREMENT (Line 13 + Line 14)	\$	<u>5,102,183</u>

(1) Amount Provided by Utility

(2) From Case No. ER-2012-0345

(3) Per SB 207 Bill Text, No Recovery of Property
Taxes Through ISRS

(4) Plant Balances Provided by Utility; Depreciation
Rate from Case No. ER-2012-0345

Ameren Missouri
Annual SCS SB 207 ISRS Revenue Requirement

Line	\$	
1 Total ISRS Rate Base	\$ 216,100,000	(1)
2 Current Rate of Return	0.079121	(2)
3 Pre-Tax Required ISRS Return (Line 1 X Line 2)	\$ 17,098,048	
4 Income Tax Conversion Factor	1.61609	(2)
5 Revenue Req. Before Interest Deduction (Line 3 X Line 4)	\$ 27,631,985	
6 Total ISRS Rate Base	\$ 216,100,000	
7 Current Weighted Cost of Debt	0.027424	(2)
8 ISRS Interest Deduction (Line 6 X Line 7)	\$ 5,926,326	
9 Effective Income Tax Rate	0.3812223	(2)
10 Income Tax Deduction Due to Interest (Line 8 X Line 9)	\$ 2,259,248	
11 Income Tax Conversion Factor	1.61609	(2)
12 Revenue Requirement Impact of Interest Deduction (Line 10 X Line 11)	\$ 3,651,148	
13 Total Revenue Requirement on ISRS Rate Base (Line 5 - Line 12)	\$ 23,980,837	
14 Annual ISRS Depreciation Net of Retirements	\$ 15,800,400	(4)
15 Annual Property Taxes	- (3)	
16 SB207 ISRS REVENUE REQUIREMENT (Line 13 + Line 14)	\$ 39,781,237	

- (1) Amount Provided by Utility
- (2) From Order in Case No. ER-2012-0166
- (3) Per SB 207 Bill Text, No Recovery of Property Taxes Through ISRS
- (4) Plant Balances Provided by Utility; Depreciation Rate from Case No. ER-2012-0166